

STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 318

Senator Burton (As Introduced 2/08/99)

Position:

Co-sponsor

Proponents:

CFT, FACCC

Opponents:

None known

SUMMARY

SB 318 repeals provisions of current law that prohibit a member of the Defined Benefit Plan who is employed to perform less than 50% of the full-time equivalent for more than one employer from electing to participate in the Cash Balance Benefit Plan (CBBP) unless all of that member's employers participate in the CBBP.

HISTORY

Chapter 592, Statutes of 1995 (AB 1298--Ducheny) created the Cash Balance Benefit Program for various part-time employees performing less than 50% of the full-time equivalent for the position.

Chapter 608, Statutes of 1996 (AB 2673--Ducheny) placed the current restrictions on CBBP participants employed by multiple employers.

CURRENT PRACTICE

Members of the Defined Benefit Program may participate in the Cash Balance Benefit Program (CBBP) under one of two conditions. A member of the DB Program employed on a full-time basis may participate in the Cash Balance Benefit Program for overtime service performed for a different employer if that employer offers CBBP and would otherwise contribute to Social Security or an alternative plan on behalf of the member for that service. A member of the DB Program employed less than 50% by an employer offering CBBP may elect to participate in CBBP as long as the member does not perform service for the same employer under the Defined Benefit Program.

Members of the DB Program who are employed by more than one employer at less than 50% of full-time may not participate in CBBP unless and until all employers by which the member is employed offer the CBBP. Any contribution made by any of the member's employers after a part-

time employee performs work for an employer who is not offering the Cash Balance Benefit Program must be reported to the DB Program.

DISCUSSION

Current law is not consistent in how it limits participation in the CBBP for employees who are offered the right to participate in the program. Existing law, for example, prohibits a member of the Defined Benefit Program who works for more than one employer from participating in the CBBP unless all of his or her employers offer CBBP. On the other hand, a person who works as a DB Program member for one employer on a full-time basis may earn creditable service under CBBP for another employer if CBBP is offered by the employer and service is for overtime which would otherwise be subject to Social Security or an alternative retirement plan. Similarly, if a CBBP participant goes to work for a second employer who offers Social Security or an alternative plan in addition to the DB Program, the participant loses eligibility for CBBP participation with the first employer if he or she chooses to work under the DB Program with the second employer. But if he or she opted to participate in Social Security or the alternative plan with the second employer, rather than the DB Program, her ability to participate in CBBP with the first employer is not affected.

The prohibition on employees participating in CBBP when they also work for an employer not offering CBBP poses a particular administrative burden for both CalSTRS and the employer. The prohibition was added in response to County Office of Education concerns regarding a potential increase in reporting and administrative workload resulting from the implementation of CBBP. Rather than reduce that workload, however, the prohibition increases that workload by requiring the employer to monitor whether the employer's CBBP participants work for other school districts or community college districts, and whether those other districts offer CBBP.

For those districts with participants working in other counties or who report directly to CalSTRS, this monitoring burden can be considerable. Approximately two months pass between the time a CBBP participant becomes ineligible for the program and the time CalSTRS becomes aware of that fact through the automated reporting system. Once the participant's ineligibility is identified, CalSTRS notifies the employer to adjust previously reported CBBP data to reflect membership in the DB Program. This requires three separate actions by the employer. First, the employer must back out the original 4% employer and 4% employee contributions already submitted to the CBBP. Second, the employer must calculate the additional 4.25% contribution and forward it in a separate report to CalSTRS. Third, the employer must calculate the additional 4% employee share, contact the employee, collect the difference from the employee, and forward it in a separate report to CalSTRS. Many employers have begun to monitor the retirement coverage of all their part-time employees on a monthly basis in an attempt to prevent this cumbersome administrative process. This eliminates one of the advantages employers seek when deciding to offer the CBBP.

In addition, requiring CBBP participants to belong to the DB Program if they also work for an employer who does not offer CBBP means that the district participating in CBBP is required to

contribute more money for the employee's retirement than was anticipated at the time the employer elected to offer CBBP. Neither the employee nor the employer is able to exercise an option they both wish to choose.

SB 318 permits Defined Benefit Program members who are otherwise eligible to participate in the CBBP to do so with respect to employment with districts offering the CBBP, even if the member also works for employers not offering the CBBP. This eliminates the need for employers to monitor the retirement selections made by their part-time employees with other employers.

FISCAL IMPACT

Benefit Program – An indeterminable loss of elective membership in the Defined Benefit program could result by broadening the eligibility for the Cash Balance Benefit Program. Because the costs of the DB program are entirely paid by contributions, however, there should be no meaningful actuarial impact on that program. In addition, there would be an increase in participation in the CBBP by employers currently not offering CBBP because of monitoring and reporting concerns. All benefit costs of the CBBP are paid by employee and employer contributions, which are less than those imposed in the DB Program. Consequently, any shift in participation from the DB Program to the CBB Program results in a savings to employers.

Administrative - Passage of SB 318 could result in the elimination of some unnecessary and time-intensive reporting requirements for employers, as well as relieving CalSTRS of burdensome corrective actions. CalSTRS estimates that it could absorb any increased administrative cost to implement this proposal.

POSITION

Co-Sponsor. Enactment of the bill would provide consistency in the availability of the Cash Balance Benefit Program for members whose basis of employment is less than 50% of full-time. It will also reduce the monitoring and research required of employers who choose to offer the CBBP, while ensuring that the decision to offer CBBP will not be affected by an employee working for a different employer who does not offer CBBP.